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FROM AIT KAOHSIUNG BRANCH OFFICE

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SUBJECT: Officials Assert Kaohsiung's MRT Subway to Start Operation as Scheduled in late 2007

REF: A) 05 Taipei 4815 B) 05 Taipei 3856 C) 05 Taipei 3525

¶1. Summary. Besieged with scandals involving shady financing and a standstill of repeated cave-in incidents, officials responsible for the construction of Kaohsiung's mass rapid transit system (KMRT) remain optimistic, asserting that from a technical standpoint the construction of the subway can be completed and will start operation on schedule at the end of 2007. The only concern is whether or not it will attract commuters. An 8.6-kilometer section of the Red Line of KMRT, which connects Kaohsiung's Hsiaokang Airport and a major shopping mall in the downtown area, recently underwent test runs. It is this section that is scheduled to pioneer Kaohsiung's subway service in late October, 2006. End Summary.

¶2. Backgound: Kaohsiung's KMRT subway system began construction in October 2001. The system, consisting of a 28-kilometer, north-south bound Red Line and a 14.4-kilometer, east-west bound Orange Line, is scheduled to start operation in late 2007. The central Executive Yuan (EY) has promised to allocate 79% of the construction funds, which were estimated at approximately USD5.6 billion. The local Kaohsiung City and County governments are to absorb the remaining 21% of construction expenditures. The Kaohsiung Rapid Transit Corporation (KRTC), selected to take responsibility for the KMRT project, is led by the China Steel Corporation with major shareholders including the EY's Development Fund, Germany Siemens, and several local engineering firms and banks.

¶3. Subway construction went smoothly in the beginning stages. However, when tunnel boring machines started digging, construction began to suffer repeated cave-ins. Many of the cave-ins were salvaged promptly, but the repairs for the collapsed 01 and 07 stations (see reftel A) may still need one more year to complete. These cave-in incidents have caused massive delays to the project and massive traffic snarls around the city. A recent report posted on KRTC's website noted that as of January 2006 subway construction is only 77.29% complete, unable to meet the scheduled 78.16%.

¶4. Allegations of bidding rigging, poor construction and corruption have dogged almost every major public works project in Taiwan. The Kaohsiung MRT subway project is no different. The KRTC President,

Fan Chen-po, attributed the cave-in incidents to Kaohsiung's weak geology, noting that in some areas that the subway transverses soil that is oversaturated with sand. Fan, who previously had served at Taipei City Government's Department of Rapid Transit Systems, noted that Taipei's subway also met with water leakage from building continuous walls underground. That leakage was always solved efficiently because the clay soil at these sites helped to effectively stop the leaks.

¶15. The KMRT project met additional setbacks on August 21, 2005, when a riot erupted by Thai laborers constructing the subway. Local law enforcement agents investigating the incident found unusual money flows had occurred in the importation of foreign laborers. (see reftels B and C) Local politicians, primarily KMT and PFP, then became dissatisfied with KRTC's performance as a contractor and demanded a halt to the construction. These politicians also questioned former Kaohsiung Mayor Frank Hsieh's (DPP) role in the original construction project bidding process. Local prosecutors continue to investigate these accusations.

¶16. According to Alex Cheng, Chief Secretary of Kaohsiung City Government's MRT Bureau, construction of 62 of the planned 66 tunnels has been completed. The remaining four tunnels, a total of only 400 meters in length, will be completed soon. Cheng went on to say that construction of 26 of the planned 28 underground stations, except for the collapsed 01 and 07 stations, has also been completed. The responsible KMRT officials noted that Kaohsiung's subway construction technically has passed already through its most critical stages. As long as local politicians continue to approve the budget, Cheng noted, the subway construction will move towards its scheduled completion in 2007.

¶17. Cheng acknowledged that one challenge his office and the KRTC may face is the ability to attract the city's large group of motorbike drivers to use the subway. Cheng suggested that using mid-sized buses to serve as feeder buses and adopting the same debit

card ticketing system now used in Taipei may be feasible. However, Fan noted that there is a concern that being a private concern, the KRTC will have to find a way to seek balance between the need for making profits and the requirement to provide a public service. He worries that high priced subway tickets may lessen the interest of the large local blue-collar population.

Thiele

Young